



The ADVISOR

TEACHERS, EMPLOYEES, and JUDICIAL



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SERVING OVER 330,000 MEMBERS

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Investing In Our State

By David G. Bronner

The RSA is a Defined Benefit (DB) Plan, where the investment risk is on the state. The RSA strives to earn as high a return as possible within reasonable risk parameters. In contrast, the investment risk is on the employee in a Defined Contribution (DC) Plan or 401(k). A DB Plan allows the RSA to invest a portion of its assets in Alabama to improve the state economy and create jobs, which can result in lower returns in the short term. The RSA would not be able to invest in Alabama with a DC Plan. The RSA's total investment returns for the last 10 years have been about one percent below the national average (3% compared to 3.9%). In 2010, the RSA earned close to \$1 billion with a return of 8.5%.

Approximately 60% of the RSA's \$25 billion in assets are invested in the U.S. and 24 other countries' stock markets. Those investments over the last 10 years have done as well as the average of other state plans. Another 25% of our assets are in fixed income securities such as publically-issued bonds and mortgages, which have performed better than the average of state plans over the last 10 years.

About 15 years ago, I made the decision that Alabama was never going to change without Alabama investing in itself. During the past 15 years, approximately 15% of our assets have been invested in Alabama, resulting in what *The New York Times* described as the "cultural change of Alabama." Our state did not have the \$100 million needed to attract Mercedes-Benz to Alabama in the 1990s, but the RSA did.

From that investment, the entire Alabama auto industry was born with almost 100,000 great paying jobs coming into existence. The RSA has invested approximately \$8 billion over the years in Alabama office buildings, golf courses, hotels, and Alabama corporations, many of which have already repaid the RSA with interest.

Cities such as Mobile and Montgomery, whose downtown areas were at best dead and falling apart, have sprung back to life. Alabama had no top quality hotels. Now it has eight of

the finest in the country! Clearly, the same money invested in buildings, hotels, and golf courses in California, New York, Paris, or wherever would provide a greater initial return because room rates and office space rent in many markets are two to four times the rates paid in Alabama. But our objective over the long-term is to bring our properties to the same level of investment returns as the top earners.

Investing in Alabama is critical to our future! Who will care about us if we do not? Fifteen years ago, tourism was a \$1.8 billion business; today, it is a \$9.8 billion business. Each year, billions of dollars come into our economy from tourism. That would not be possible without the nearly \$50 million the state receives from Raycom Media (our 43 television stations) and CNHI (our 140+ newspapers) that support state tourism with free advertising as well as a reasonable 8% return.

Ten years ago, the RSA jointly funded with GKN Aerospace Alabama a new project for the development of the Wing Trailing Edge Panels for the Airbus A380, the world's largest passenger plane. This resulted in the RSA – GKN – Airbus (EADS) signing a tripartite agreement for the project and was the start of the RSA's relationship with Airbus (EADS).

Subsequently, the RSA became the prime catalyst in bringing another EADS project to Alabama. The RSA working closely with the Mobile Port Authority and GKN Aerospace has "wooed" EADS to have the potential future home of the New A330 Flight Refueling Tanker in Mobile if Airbus is successful in securing the project.

I put 15% of our assets at risk to forever change Alabama. There are no other states, except maybe Nevada until the housing bubble bust, that have had more progress during this period. While our investment returns may suffer slightly in the short-term, our objective is long-term, sustainable growth. We will get past our current problems and continue to make Alabama a better place with every step forward. ■

"Think Before You Speak"

By David G. Bronner

My father, who ran a pool hall and only made it to the eighth grade, was truly a lot smarter than his educated son. I pursued higher education until I

had obtained my law degree and Ph.D., all in an effort to avoid the pool hall. But despite my dad's lack of education, he taught me valuable life lessons, for example, "Think before you speak."

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Editorial: *The Birmingham News*

The Issue: Alabama has too many adults and children who are going to bed hungry; we can do something about it if we have the will.

For those skeptics who need yet more evidence that Alabama's tax system and, especially, a high sales tax on food hurts our state's poorest people, take a look at a troubling report from the U.S. Department of Agriculture.

Alabama is No.1, and it's not in something to be proud of. The state has the highest percentage in the nation of people who go hungry. We're an affluent nation and, in many ways, an affluent state. Some Alabama ZIP codes are as wealthy as any in the country.

But there are many more poor ZIP codes. With a poverty rate of 16.8 percent, there are many Alabamians, adults and children, who go to bed hungry. That is underscored by the fact that more than half of the state's schoolchildren – 54 percent – receive free or reduced-priced lunches in school.

The USDA report, bureaucratically named "Household Food Security in the United States 2009," is all about numbers, but what we must remember is that each of those numbers is a person. And often, those numbers are children.

Here's one number: Nearly 7 percent of Alabama households experienced hunger over the past three years because parents couldn't afford enough food. That's the highest percentage in the country. Nationally, the rate is 5.2 percent.

Here are more numbers: That 7 percent translates into about 126,500 households. That's households, not individuals.

Consider this: Alabama's rate of hunger just about doubled from 2007 to 2009. From 2004 to 2006, the rate was 3.3 percent. We're doing worse, not better. The report says that of the 1.86 million households in Alabama, another 8.2 percent had low food security, meaning those households had difficulty providing enough food for everybody in the house, but there was no outright hunger.

While the USDA derives its figures

through a survey and scientific methodology, the anecdotes from workers in Alabama food banks back the statistics concerning hunger. Lines are longer at food banks, they say, and soup kitchens are busier.

But what does all of this have to do with Alabama's tax system?

As Kristina Scott of the Alabama Poverty Project points out: "A jar of peanut butter may be the same price in Alabama and Florida, but it's 10 percent more in Alabama because of the sales tax on food."

Bills to remove the state's 4 percent tax on food have failed in the Legislature, and Republicans who have taken control of both legislative chambers don't appear to be in any mood to remove the sales tax on groceries if it means asking wealthier taxpayers to cover the lost revenue.

In a land of plenty, we shouldn't have hungry people and, especially, hungry children. The state could strike a blow against hunger by removing the sales tax on food – if we have the will. ■

Special Notice on 2011 Federal Withholding for Retirees and Beneficiaries

The standard deduction in the federal tax withholding tables was increased in 2009 and 2010 as part of the federal effort to spur the economy. However, the 2011 tax tables reverted to the previous level of withholding. This may result in a larger amount of federal taxes being withheld from benefit payments and a decrease in the amount of your net retirement benefit payment.

Please review your tax information and if you wish to change the amount of federal taxes being withheld from your monthly retirement benefit, please submit a new W-4P.

IRS 1099-R Forms were mailed at the end of January to retirees and beneficiaries who received benefits payments in 2010. If you do not receive this form by February 10, 2011, please call our office toll-free at 877.517.0020 and request a duplicate. ■

WOW! The Grand Hotel Scores High

Marriott grades all our hotels as well as their other properties across the world on a monthly basis.

Last month, The Grand Hotel in Point Clear had a customer rating of 89.6, which places it above The Plaza in New York City, The Greenbrier in West Virginia, and Bellagio in Las Vegas. *Travel & Leisure* magazine also named The Grand Hotel "One of the 500 Top Hotels in the World"!

Congratulations to our excellent staff for a job well done. ■



"Think Before You Speak"

Often politicians create unnecessary controversy and problems for themselves by trying to give solutions to problems they have not fully studied. Unfortunately, the incorrect information on public pension funds is running rampant across the nation and causing the media and politicians to attack public pension funds unnecessarily.

Make no mistake, numerous states do have serious pension problems, such as Virginia with \$21 billion short of full funding and Illinois' five plans short \$80 billion. Some states got that way because they intentionally under-funded their plans over many years.

The state of Alabama, on the other hand, has always contributed to our plans what the actuaries required. Unfunded liabilities of \$6 billion for the Teachers' Retirement System and \$2 billion for the Employees' Retirement System are not the size to create chaos when the RSA

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has 70+ percent funding. When I started at the RSA, we were 25 percent funded. Just as we worked over the decades to bring funding to over 100 percent in 2000, we will work our way back to that level with reasonable benefit adjustments to the plans.

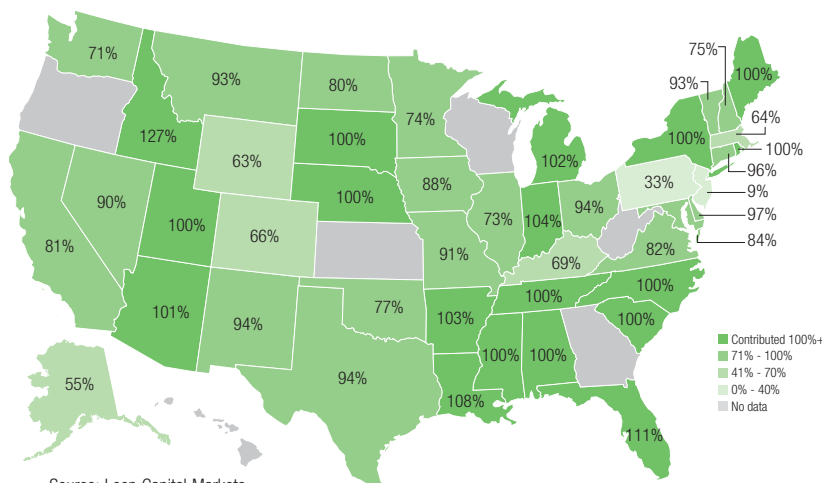
The serious problem in Alabama is not pensions, but health care costs. Our pensions have real assets over \$25 billion and unfunded liability of \$8 billion, while the teachers' health insurance plan (PEEHIP) has a few hundred million in assets and about \$15 billion in liabilities.

The preliminary estimate for our next fiscal year shows pension costs increasing about \$20 million and health care costs for PEEHIP increasing \$126 million and \$38 million for SEIB (state employees).

Where is the problem? How should we solve the problem? "Think before you speak." That was real good advice from Dad. ■

CONTRIBUTION SCORECARD

Percentage of annual required contributions made in fiscal year 2009 (weighted average).



Source: Loop Capital Markets

FEDERAL STIMULUS IN ALABAMA

Here's a look at Alabama's 10 biggest recipients of federal stimulus dollars so far from the U.S. Department of Education.

Recipient	Stimulus Dollars
Department of Corrections	\$118,585,536
Mobile County schools	\$76,712,250
Auburn University	\$51,766,816
University of Alabama at Birmingham	\$49,823,042
Montgomery County schools	\$47,032,591
Birmingham schools	\$33,566,596
Jefferson County schools	\$31,643,809
University of Alabama	\$29,398,744
Baldwin County schools	\$23,817,695
Huntsville schools	\$22,140,421

Source: edmoney.org
Alabama Department of Education

Press-Register graphic

Nevada Study 401(k) Plan Costs More

Source: Las Vegas Journal

The Public Employees' Retirement System of Nevada released a nine-month study of switching employees from their current Defined Benefit Plan to a Defined Contribution Plan or 401(k).

The Las Vegas Chamber of Commerce calls Nevada's public pensions "Among the Nations Most Favorable." It found a 30-year employee with an annual salary of \$50,000 would receive \$37,380 a year for life. The fund is currently \$10 billion short of full funding.

The shocker of the study was, "Switching employees to a 401(k) plan would cost an additional \$1.2 billion over the next two years, but in the long run – about 20 years – a 401(k) plan would be less costly." The senate sponsor says, "The study was talking about everyone, and we cannot spend more, I just want to affect new employees." But, Kim Nichols of Segal Co., a Chicago based consulting firm, found little good in her study to say about 401(k) plans, "Some see this as a silver bullet, but that is just not the case." ■

WANT TO HELP?



A FREE Car Tag

Tired of that worn-out dealer tag on the front of your car? Would you like to help the RSA and our Alabama Tourist Department advertise "Alabama's Robert Trent Jones Golf Trail" on your front bumper? If so, call to request a tag at 334.517.7000, or 877.517.0020, or write:

Tag
P.O. Box 302150
Montgomery, AL 36130-2150

ENJOY YOUR WINTER/SPRING
A Special Deal
FOR RSA MEMBERS

**The Battle House,
A Renaissance Hotel – Mobile – \$99**

- February 4–7, 13, 20–21
- March 1–2, 13–15, 20–23, 28–31
- April 6–7, 10–11, 17–21, 24

**The Renaissance Riverview Plaza –
Mobile – \$89**

- February 4–7, 13, 20–21
- March 1–2, 13–15, 20–23, 28–31
- April 6–7, 10–11, 17–21, 24

Marriott Grand – \$99 plus a 15% resort fee

- February 1–13, 19–24, 27–28
- March 1, 6–14, 20–30 • April 1–5, 10–14, 17–21, 24–27

Marriott Grand – RSA Golf Package – \$169

Ask for code – LOCD

Includes: Deluxe Room, One Round of Golf for Two People.
Call for Tee Times after booking package

- February 1–13, 19–24, 27–28
- March 1, 6–14, 20–30 • April 1–5, 10–14, 17–21, 24–27

Marriott Shoals – Florence – \$89

- February 6–8, 14–16, 23–24
- March 3, 9–10, 13–14, 30–31 • April 1–5, 10–11, 20, 27

Renaissance Ross Bridge – Hoover – \$99

- February 1–2, 6–7, 11, 13–14, 17–24, 26–28
- March 1–21, 24–31 • April 3–4, 7, 10–11, 17–30

Opelika Marriott – \$89

- February 1–3, 6–16, 18–28
- March 1–5, 12–17, 20–23, 25–26, 28–31
- April 1–6, 8–13, 17–25, 27–30

Prattville Marriott – \$89

- February 4–6, 11–14, 18–21, 27–28
- March 1–2, 5, 8–17, 20–21, 25–31
- April 1–3, 7–9, 15–18, 21–25, 28

Renaissance Montgomery – \$99

- February 3, 13–14, 27 • March 5–6, 20, 27–28
- April 3, 9–11, 16, 21–26

*Rates available the 1st of the month
and are not applicable to groups.*

Code: RABM, 800-228-9290

Internet promo code: R2A on marriott.com

**Book Online and
Save RSA \$4.**

**A Gathering Storm Revisited:
“A Category 5 Storm”**

- The U.S. ranks 48th in math and science education.*
- 51% of U.S. patents were awarded to non-U.S. companies (2009).
- The U.S. ranks 22nd in broadband penetration and 72nd in the density of cell phone subscription.
- Not one nuclear plant or oil refinery has been built in the U.S. in more than 30 years.
- U.S. firms spend more than twice as much on litigation as on research.

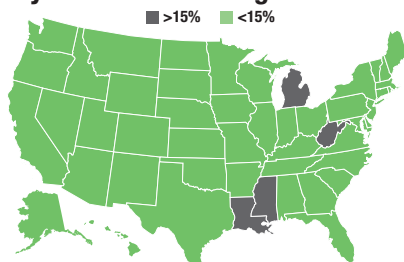
*Source: World Economic Forum

Lifestyle Makes a Difference

70% of health-care spending -about \$2.5 trillion- is spent on lifestyle-related diseases.

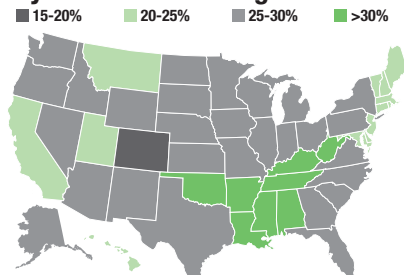


Obesity Prevalence Among U.S. Adults 1991



Source: Trust for America's Health, Robert Wood Johnson Foundation

Obesity Prevalence Among U.S. Adults 2010



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**Report—Street Lights that are Out—to the Power Company!
Report—Weekly Lots—to the Mayor!**